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Montana Agriculture Bankers

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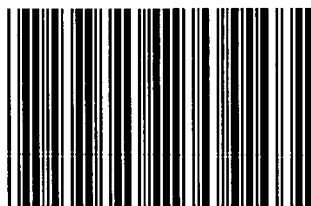
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BAUCUS

**Montana Agriculture Bankers Speech
March 27th 2008**

Introduction

It is great to be here today. It's good to see so many familiar faces. It's also good to see Steve. He has been in Washington many times this last year discussing the Horizons Project and doing his best to make sure it never made it into the Farm Bill.

Today I am going to speak mostly about agriculture because there has been a lot happening in the ag world lately, some good and some bad. Wheat producers are experiencing some of the highest prices ever. Cattle ranchers are faced with softening prices and escalating expenses. And the Farm Bill is stuck in neutral.

Rural America's economy is important to everybody. Everybody in this room already knows that. But it's particularly important to ag lenders. If Montana's farmers and ranchers struggle, so do Montana's ag lenders.

Since I am on the Agriculture Committee as well as a Farm Bill conferee, I want to give you an update on the Farm Bill, including the Horizons Project. Perhaps I can provide a little insight into what's holding up the Farm Bill. Finally, I would like to share some economic projections that were recently presented to Congress. I think you will find these projections eye-opening.

Farm Bill-Overview

Let's start with the Farm Bill. I am not sure if I should call it the 2007, 2008 or 2009 Farm Bill. It has been one of the most difficult Farm Bills in a long time. Everybody wants more money; unfortunately, there is not enough money to go around.

To put this into perspective, in 2002 we had an additional \$75 billion to write the Farm Bill. This Farm Bill we may be able to spend an additional \$10 billion, but to do this we have to cut \$10 billion somewhere else. It's been tough to keep everybody happy and it's taken a long time to get to where we are today.

Last July the House passed their bill, unfortunately it was a partisan battle. In December we were able to pass our bill in the Senate. It may have taken a long time, but it was a huge success. It received 79 votes, the highest number of votes for a Farm Bill in the Senate since 1948. It says something about a bill when you can receive that many votes with such a tight budget.

Unfortunately, that was four months ago and we still have not put a Farm Bill on the President's desk. Right now we are working out the differences between the House and Senate Farm Bills. In order to pass any major piece of legislation there has to be some give and take. Unfortunately, everybody seems interested in taking, but nobody is willing to give. We have to find a solution soon. Nobody wins if we simply extend the 2002 Farm Bill. But I am optimistic we can work through it and pass a Farm Bill.

Our latest extension lasts until April 18th. I am hopeful we can wrap it up by then. Even though it will not be easy, it is important to get it finished.

Because I sit on the Agriculture Committee, I worked hard to make sure the Senate bill is right for Montana. I helped insert language that helps beginning farmers and ranchers get off the ground, stops Farm Service Agency offices from closing if they are far apart, strengthened the safety net for wheat and barley, inserted language that insures our farmers and ranchers can take full advantage of the new energy programs and wrote a disaster program.

Disaster Assistance

Including a disaster program was one of my top priorities in the Farm Bill. Historically, Congress has passed ad hoc disaster assistance every two or three years. Unfortunately, farmers never knew if, or when Congress would finally act. This created a great deal of uncertainty for farmers and their lenders.

In addition, ad hoc disaster only compensates for one year's loss, even if a farmer has suffered a disaster three years in a row such as extended droughts that plague Montana producers. This meant that farmers and ranchers with small disasters were overpaid, and farmers and ranchers with big disasters were underpaid.

I want disaster assistance to be included in the Farm Bill so farmers know that help will be on the way if they lose a crop. I also believe reliable disaster assistance is good for everybody in this room. Last year, my office received many phone calls asking if Congress was going to pass disaster assistance because their bankers were not going to extend credit until it was passed.

My proposal is better for both farmers and taxpayers. It's better for farmers because it is dependable and provides more assistance when the big disasters strike and less during small disasters. It's better for taxpayers because it requires farmers and ranchers to protect themselves through crop insurance. It's really a win-win situation.

Finally, before I leave the Farm Bill, I know everybody in this room is not nearly as concerned with what is included in the Farm Bill, as making sure that the Horizons Project is NOT included.

Horizons

I believe you are all aware of the Horizon's Project. It was an effort by the Farm Credit System to expand their lending to non-farmers. They wanted to provide housing loans to communities of 50,000 people, instead of their current limit of 2,500. They also wanted to expand their lending authority beyond farmer owned cooperatives to any businesses that farmers and ranchers frequent.

Our farmers and ranchers need credit, and I will insist that our farmers have credit. But Horizons was not about helping farmers' credit. It was aimed at lending to people with vacation homes and ranchettes in rural communities. That is why I opposed the Horizon's Project. It was not necessary, and I did not believe it was going to help Montana's farmers or ranchers.

None of the Horizons language made it into either the Senate or House bills. I am hopeful that nobody will try and pull a last minute surprise by inserting Horizon's language into the Farm Bill.

Farm Economy

In conclusion I wanted to share some eye-opening data that was recently provided to Congress. This data may have a direct impact upon your clients. In the last month both wheat and corn have hit record high prices.

In the past, when wheat prices spiked, it did not take long before soybean and corn acres were planted to wheat, flooding the market and leading to low prices. Not anymore, with \$5.00 corn and \$12.00 soybeans these acres are staying in corn and soybean. In fact, USDA projects that an additional eight million acres will be planted into soybeans this year.

So what do these record commodity prices mean for our Montana farmers and ranchers? Unfortunately, it's a mixed bag. Every year, economists at the Agriculture and Food Policy Center run economic models for nearly 100 representative farms and ranches nationwide. Their models project each farm or ranch's profitability for the next ten years and they provide their data to Congress.

These economists begin by taking an in-depth look at each farm or ranch's books, including their production history, debts, and assets. They run models based upon current and projected supply and demand to project future commodity prices. Finally, they combine the representative farm and ranch information with projected commodity prices and projected expenses to determine each farm or ranch's likelihood of profitability. This year's analysis was staggering.

Wheat Projections

They predicted unprecedented profitability for wheat farms. Each year they sample eleven wheat farms nationwide, one of their representative farms was from Montana. Their analysis showed that ten of the eleven farms will have positive cash flows in the next five years. In fact, only one of the eleven representative farms even had over 25 percent chance of a negative cash flow in the next five years. This is amazing when we consider that according to USDA, the market price of wheat has been above the cost of production for less than ten months in the past ten years.

The long term wheat market also looks strong. They projected that wheat prices will dip from their current levels and stay around \$5.25 per bushel for the next five years. That's the good news. Unfortunately, the rest of their news is troubling.

Livestock Projections

In Montana, around 60 percent of our ag receipts come from the livestock industry. While our grain producers are likely to experience record profits, our ranchers have a tough road ahead. The same group of economists looked at representative cattle ranches; their analysis included one Montana ranch. They believe eight of the twelve cow-calf ranches will suffer negative cash-flow during the next five years due to both softening markets, but more importantly skyrocketing expenses. The cost of fuel and fertilizer is rising, but the price of beef remains stagnant.

Even more startling are projected returns per cow. From 2002-2006 their data showed that an average cow provided a \$110 return annually. However, due to increased expenses, the same cow provided a \$30 dollar return in 2007 and will only provide a \$15 return in 2008. Even worse, they projected negative returns in the upcoming years. I hope their projections are wrong because it's hard to earn a living with those types of economics.

Conclusion

There you have it; the good, the bad, and the ugly. As with most things in life, agriculture presents great opportunities as well as great pitfalls. Before I leave I want to thank you. Thank you for what you do for your rural communities. Thank you for what you do for our Montana farmers and ranchers. Without you our rural communities would dry up and our farmers couldn't keep producing. Thank you.